CANADA

Industrial Pension Plans in Canada

Price: 25 cents

Four Studies

contribution and benefit formulas

types of retirement policy

vesting provisions

number of workers covered

Economics and Research Branch
DEPARTMENT OF LABOUR

Introduction

The post-war years, which have seen substantial improvements in the wages and working conditions of Canadian workers, have also seen a marked rise in the number of industrial pension plans. In 1936-37, approximately 8 per cent of Canadian industrial establishments were estimated to have a pension plan. Ten years later the proportion was estimated at almost 25 per cent; today it is 45.

These plans affect industrial life in various ways, not only in the protection they afford workers, but also in the bearing they have on such questions as labour turnover and on policies affecting the recruitment and retention in employment of older workers.

Pension plans vary substantially in the nature of their provisions. The series of articles presented in the following pages, reprinted from the Labour Gazette, describe some of the important characteristics of pension plans in the larger Canadian firms.

The first three articles are based on an examination of the actual pension plans of 214 firms, out of 411 Canadian firms employing 500 or more employees in 1951, that had pension plans at that time. The first article deals with the various types of contribution and benefit formulas found in the pension plans; the second, with age of retirement and other aspects of retirement policy; the third with vesting provisions. The fourth and final article gives statistical information regarding the number of plans and employees covered by such plans and is based on the replies made to the Economics and Research Branch of the Department of Labour, in the course of its surveys of working conditions from 1951 to 1954.

The four articles were prepared in the Economics and Research Branch of the Department of Labour.

Contribution and Benefit Formulas

While the basic purpose of an industrial pension plan is simple—to help the employee provide for his years of retirement—the procedures by which that purpose is accomplished are necessarily complex. Many factors must be considered, under such broad headings as: method of financing the plan, benefits to be provided, manner of administration, eligibility requirements, vesting, and age of retirement. These factors may be dealt with in a variety of ways. A pension plan is thus a complex whole and is usually "tailor-made" for a particular company and the employees it is designed to serve.

More than half of 411 Canadian firms with 500 or more employees recently studied by the Economics and Research Branch, Department of Labour, have a company-wide pension plan. Five out of six of these pension plans are financed by both employee and employer contributions; the others are non-contributory.

Among the plans studied, great variation was found in contribution and benefit formulas. Rates of contribution vary, not only in the level of pension benefit, but also in the type of supplementary benefits that may be provided and the age stipulated for retirement. The cost of a pension plan is also affected by the age and sex of the persons in the working force, rate of interest earned by accumulated contributions, employee turnover and other factors.

The present study deals only with pension plans in effect in the larger Canadian firms. The 411 firms included, many of which have branch establishments, are believed to constitute more than 90 per cent of the total number of firms in Canada having 500 or more employees. It was found that 238 of these larger firms, or 58 per cent, have a pension plan. Five of the plans were not available for study, while 19 applied to salaried employees only; these are excluded from the present analysis, which is thus based on pension plans in effect in a total of 214 firms. Total employment in the firms, including their branch establishments, is estimated at 660,000, but the proportion of employees eligible to participate in the pension plans or actually covered is not known.

The 214 plans are distributed industrially as follows:—

Forestry		1
Mining		9
Manufacturing		168
Food & Beverages	32	
Textile Products	10	
Paper Products	28	
Iron & Steel Products	22	
Transportation Equipment	11	
Electrical Apparatus & Supplies	12	
Other Manufacturing	53	
Construction		4
Transportation, Storage & Communication (1)		11
Public Utility Operation		3
Trade		16
Service		2
		214

(1) Steam Railways excluded (but for description of Canadian National Railways pension plan, see LABOUR GAZETTE, 1952, p. 339).

There are two main ways of meeting the cost of a pension plan: the "contributory" and the "non-contributory" method. Similarly, there are two main ways of providing benefits: through the "unit benefit" and the "money purchase" types of plans.

Contributory and Non-Contributory Plans

In Canada, at present, most pension plans are "contributory", with both employer and employee making regular contributions towards the cost of providing

benefits. Of the 214 plans studied covering the larger industrial firms, 176, or more than 80 per cent, were of the contributory type. In the remaining 38 "non-contributory" plans, the cost is borne entirely by the employer.

This wide adoption of the contributory method in Canada is in contrast with the experience in the United States, where non-contributory plans appear to be about as popular as contributory plans. For example, a study of company plans made by the U.S. Bureau of Labor Statistics in November 1949 found that less than 60 per cent of the plans were contributory.[1] A later study, made by the Bankers Trust Company, showed that of 314 plans in effect in large firms between 1950 and 1952, only 37 per cent required employee contributions; the remainder, including all the negotiated plans, were non-contributory.[2]

This important difference between Canadian and United States pension plans may be partly explained by the history of employee benefit plans in both countries, starting with the last war.

During the war, when wages were subject to controls on both sides of the border, a considerable number of employee benefit plans were introduced by industrial firms in lieu of wage increases. At that time, industrial workers in the United States were already covered at retirement by social insurance benefits available under the Social Security Act. Interest in employee benefit plans was thus mostly in the fields of life insurance and health benefits; after the war, industrial pension plans were found in only 5 per cent of establishments, in a study made by U.S. Bureau of Labor Statistics in 1945-46, covering 15,636 manufacturing establishments. By contrast, 37 per cent had life insurance plans and 30 per cent had health benefit plans.[3]

In Canada, where at that time old-age pensions were subject to a means test, the increase in the number of pension plans kept pace with the increase in other benefit plans. In 1936-37, approximately 8 per cent of Canadian establishments were estimated to have a pension plan.[4] Ten years later the proportion was estimated at almost 25 per cent.[5]

Plans introduced during the war years were mostly contributory, since it was the general policy of the War Labour Boards in Canada to favour contributory plans, as better adapted to the anti-inflation program.

It was only in more recent years that a marked trend towards industrial pension plans developed in the United States. The sharp rise in the post-war cost of living made the provisions of the Social Security Act appear less adequate. In 1949, unions started a drive for pensions that resulted in the introduction of plans in a great many establishments. For the most part, the unions aimed at obtaining non-contributory pension plans. In Canada, on the other hand, pension planning was less influenced by collective bargaining than in the United States and tended to follow the experience of contributory plans established during the war years. However, a union drive for non-contributory plans did develop about 1950 and met with some success, particularly in the iron and steel products and the non-metallic mineral products industries.[6]

One of the reasons why non-contributory plans have not proved as popular in Canada as in the United States is the difference in taxation laws. Canadian law favours contributory plans: the money an employee contributes to a pension plan is deductible from his income for taxation purposes, as is also the employer's contribution. In the United States, only the employer's contribution is deductible.

TABLE 1.—NUMBER OF PENSION PLANS BY METHODS OF FINANCING AND PROVIDING BENEFITS

—	Total	Unit Benefit	Money Purchase	Composite
Contributory....	176	121	53	2
Non-contributory	38	37	1	....
Total........	214	158	54	2

[1] *Monthly Labor Review*, Bureau of Labor Statistics, Washington, March 1950, p. 298.

[2] *A Study of Industrial Retirement Plans*, Bankers Trust Company, New York, 1953, p. 15. For the period of 1948-50, 53 per cent of the private plans were contributory.

[3] *Monthly Labor Review*, July 1947, p. 54.

[4] *Report on Phases of Employment Conditions in Canadian Industries*, National Employment Commission, Ottawa, December 1937.

[5] *Survey of Pension and Welfare Plans in Industry*, 1947, Dominion Bureau of Statistics, Reference Papers No. 4, May 1950, Ottawa, Canada, pp. 27 & 29. This survey obtained information on more than 3,400 plans as of 1947.

[6] Industrial pension benefits in the United States are generally integrated with government retirement benefits and even though the employee may not make a contribution to his industrial plan, he is required to contribute to the government program.

Another fact that explains in part the difference between Canadian and United States practice is that in Canada the large firms are still of a smaller size than the large firms in the United States and the information available in both countries suggests that larger firms are more apt to accept the full liability of a pension plan. For example, the survey cited previously, made by the Dominion Bureau of Statistics in 1947, showed that non-contributory plans were found in units averaging 405 employees, while the contributory plans were in units averaging 78 employees. Similarly, the U.S. Bureau of Labor Statistics' study of 1949 also found that non-contributory plans were more prevalent in larger than in smaller firms.

"Unit Benefit" and "Money Purchase" Plans

Most pension plans state definitely the benefit rates that are to be provided. An attempt is made to estimate the cost of providing these benefits but in actual practice the cost is likely to vary from firm to firm and even within each firm from year to year, depending on actuarial considerations, experience under the plan, and other factors. In most such plans the rate of employee contributions (if the plan is contributory) is fixed but the amount of the employer contribution, which will vary from year to year, is stated to be "the balance of the cost of the plan". Such plans are usually called "unit benefit" or "definite benefit" plans.

An alternative kind of pension scheme is the "money purchase" plan. Under this type, the rate of contribution is fixed for both employer and employee but the level of benefits may vary. In such plans, a tentative level of benefits is usually anticipated and the contribution formula is determined with the expectation that it will provide or approximate a certain result. Whether this result will in fact be achieved, however, will depend on experience under the plan. The purpose of this type of plan is different from that of the unit benefit plan. The unit benefit plan undertakes to provide a certain definite level of benefits; the money purchase plan, on the other hand, undertakes instead to provide whatever benefits may be realized by a fixed amount of money invested in the plan.

With a unit benefit plan, a fixed amount or "unit" of pension is bought for each year of service with the employer. This unit is usually expressed as a percentage of earnings. For example, if the formula calls for a pension of 1½ per cent of earnings per year of service, an employee whose earnings are $2,400 in a particular year will earn an annuity of $36 for that year of service. The total of the units earned forms the total pension to be received annually upon retirement. If the employee remains with the firm for 30 years at an average wage of $2,400, his pension upon retirement will be $1,080 yearly ($2,400 x 1½% x 30).

Under a money purchase type of plan, the employee frequently is given an approximation of the amount of pension he will receive at retirement in relation to the contributions made by himself and by the employer in his behalf but the level of benefit is not guaranteed.

Obviously the type of analysis that can be made of the 214 pension plans under study will vary in accordance with the basic structure of the plans (shown in Table 1). In the unit benefit plans it is possible to study the method of calculating pension benefits, in relation to

TABLE 2.—EMPLOYEE CONTRIBUTION AND BENEFIT RATES IN 115 CONTRIBUTORY AND UNIT BENEFIT PLANS

Employee's contribution and future service benefit expressed as a fixed percentage of his earnings

Employee Contribution	Benefit (% of average annual earnings x years of service)									Total
	3/4	1	1 1/8	1 1/4	1 1/2	1 3/5	1 2/3	1 3/4	2	
2% of earnings					1					1
3% "		2		1	6				2a	11
3½% "					7					7
4% "				1	29	5b		1	7	43
4½% "				1	7c				1	9
5% "	1		1	1	26		2	6	6d	43
6% "								1		1
Total	1	2	1	4	76	5	2	8	16	115

a In one plan, benefits are based on the 10 highest paid years of service.
b In one plan, there is an additional benefit of $40 per month if the employee retires after age 60 with 20 years service.
c In one plan, benefits are based on the 10 last years of service.
d In one plan, benefits are based on the 10 highest paid years of service excluding the last five, or the ten years preceding the last five, whichever is greater.

employee contributions and to employer contributions, if any. For the money purchase plans, on the other hand, nothing can be stated concerning the benefit levels, since the plans are not specific on this point.

Analysis of Contribution and Benefit Formulas

For analysis of contribution and benefit formulas, the 176 contributory plans are divided according to whether they provide pensions by the unit benefit or money purchase method. Of the 38 non-contributory plans, all but one are of the unit benefit type.

Only the ways in which the plans provide for an employee's "future service", that is, to his years of service after the introduction of the pension plan, are described here. The years of employment with the firm prior to the plan are referred to as "past service". Retroactive pensions for these years are often bought by the company, with, in many cases, voluntary additional contributions by the employee. However, the way in which the 214 plans deal with "past service" is outside the scope of this article.

1. Contributory Plans

(a) *Unit Benefit Plans*—In a contributory plan, the rate of employee contribution is usually fixed and remains the same throughout his period of service. From the actuarial point of view, however, the cost of the plan increases with the age of the worker. A few plans base their contribution formula on this consideration and require the employee to pay a higher rate of contribution as he grows older. The employee's rate of contribution also varies in some cases with the size of his earnings.

In 115 of the 121 unit benefit plans studied, the percentage of his earnings which the employee contributes remains fixed throughout his years of service. In five cases, however, the rate of contribution varies either with the earnings or with the age of the participant. In one other plan, both the contributions and the units of benefit are flat amounts, rather than percentage of earnings. This plan has a fixed money contribution of $52 and a benefit of $33.66 per year of service (for male plant employees). In all six cases, the employer bears the balance of the cost necessary to buy the level of benefits.

Table 2 shows the rate of employee contribution and the rate of benefit in the 115 plans in which the employee's contribution is a fixed percentage of his earnings. Note that the rate of future benefit most commonly provided by this type of plan is 1½ per cent of the employee's average earnings. This is also the rate specified in all five of the plans in which the rate of employee contribution varies with earnings or age group.

As an illustration of the size of annual pension a formula of this sort would provide, an employee with an average yearly salary of $2,000, $3,000 or $4,000, and with 20, 25 or 30 years of credited service with the employer, would receive upon retirement one of the following pensions:—

Years of Credited Service	Average Earnings $2,000	$3,000	$4,000
20	600	900	1,200
25	750	1,125	1,500
30	900	1,350	1,800

The next most common rate of benefit found in the contributory and unit benefit plans studied is 2 per cent of salary; 16 plans out of 120, or about 13 per cent, have adopted this formula.

Table 2 shows also that the rates of employee contribution most generally found are 4 per cent and 5 per cent of earnings. These two rates account for three-quarters of the contributory plans of the unit benefit type, with each rate being found in 43 plans. In both cases, the 1½ per cent benefit formula is predominant.

TABLE 3.—CONTRIBUTION RATES IN 43 CONTRIBUTORY AND MONEY PURCHASE PLANS

Employee and employer fixed contributions to the pension plan expressed as percentage of employee earnings

Employee Contribution	Employer Contribution 2%	3%	4%	5%	6%	Total number of plans
2%				2	1	3
3%		7		2		9
4%			8	1	1	10
5%	1			19a		20
6%					1	1
Total number of plans	1	7	8	24	3	43

a In one plan, both contributions are increased to 6% if employee is married.

From Table 2, it may appear that there is a great difference in the liberality of the various pension plans, since employees coming under different plans contribute different amounts to receive the same benefits. For example, 26 plans require the employee to contribute 5 per cent of his earnings in order to receive a unit benefit of 1½ per cent, while under 29 plans the employee has to pay only 4 per cent for the same future pension benefit; 14 plans ask even less than 4 per cent from the employees for the same benefit. It is a fact that some plans are more liberal than others from the employee's point of view, and, in these cases, the "balance of the cost" to be paid by the employer is higher. However, it should be emphasized that Table 2 does not afford an exact comparison of the liberality of the various plans because several benefits provided in varying degrees are not discussed in this article; the provision of those benefits adds to the cost of the plan. Some of these "fringe" items are disability pension, early retirement, death benefits, and vesting. These benefits must be paid for and, for a given amount of total contributions, the higher the "fringe" items, the smaller the amount of retirement pension.

(b) *Money Purchase Plans*—It has already been noted that the benefits provided under the money purchase types of pension plan cannot be easily calculated in advance. But, on the other hand, the essential feature of a money purchase plan is that the contributions of both the employee and the company are known.

It is therefore possible, with plans of this type, to compare the size of the contribution the employee makes to the plan with that made by the employer. This is done in Table 3.

In the study it was found that 53 of the 176 contributory plans, or about one-third, were of the money purchase type. In most of these plans (43) the contribution of both employer and employee is a fixed percentage of the employee's earnings. The relation between employer and employee contribution rates in these 43 plans is shown in Table 3.

In most of the money purchase plans (35) the employer and employee contributions are the same; in seven of the eight remaining plans the employer's contribution exceeds that of the employee.

The commonest rate of contribution is 5 per cent of the employee's earnings. Twenty of the plans require the employee to contribute at this rate; all but one of the remainder call for a lesser contribution.

Among the money purchase type of plans are also found ten in which the rate of contribution of the participants may vary, instead of remaining fixed throughout the employee's term of service. In four cases the rate varies with the age of the employee; in three cases with the employee's earnings. The remaining three plans are profit-sharing plans, under which the company's contributions vary according to its earnings.

(c) *Composite Type Plans*—In Table 1, two of the contributory plans were listed as "composite". These two plans combine certain features of the unit benefit and money purchase methods. The employer pays the cost of yearly units of benefit amounting to ¾ of 1 per cent of the employee's earnings in one case and 1 per cent in the other. An additional "money purchase" benefit is bought with the employee contribution, which may be 4, 5 or 6 per cent at the employee's discretion.

TABLE 4.—BENEFIT FORMULAS IN 26 NON-CONTRIBUTORY AND UNIT BENEFIT PLANS

Showing the percentage of employee earnings on which pension benefits are based and the period of service used to compute pension benefits. (In all cases the pension benefit is computed by multiplying the percentage of the employee's average earnings over the period of service specified by his total number of years of credited service.)

Period of Service used to compute Pension Benefits	Percentage of employee earnings on which pension benefits are based							Total Number of Plans
	3/5 of 1%	7/8 of 1%	1%	1 1/8%	1 1/4%	1 1/2%	2%	
Entire credited service	1a	....	3	1	1	1	1	8
Last ten years of service	....	....	9	....	....	....	....	9
Ten highest paid consecutive years of service	....	2	1	....	....	....	....	3
Ten highest paid years of service	....	....	1	....	....	1	....	2
Last five years of service	....	....	2b	....	....	....	....	2
Last year of service	....	....	1	....	....	1c	....	2
Total number of plans	1	2	17	1	1	3	1	26

a Company's contribution is raised when employees make voluntary additional contribution.
b In one plan the company's contribution is raised to 2% when employee makes voluntary additional contribution; in the other, the company's contribution is raised to 1½% for women.
c Plus $6.00 yearly per year of service.

2. Non-Contributory Plans

Under a non-contributory pension scheme, the employer is required to pay the plan's full cost. The plan may, however, be either of the unit benefit or money purchase type, although the former type is far more common.

In fact, in all but one of the 38 non-contributory plans included in this study, the benefits are stated and the company pays whatever they cost. The other non-contributory plan is money purchase.

In 26 of these non-contributory plans the benefit rate is based on a percentage of the employee's average earnings. As will be noted in Table 4, the rate most commonly provided is 1 per cent of average earnings.

Compared with the higher rate of 1½ per cent which is predominant among the contributory plans, this would seem to indicate that non-contributory plans tend to provide a less liberal pension benefit than do contributory plans. However, there is at least one offsetting factor in the non-contributory plans studied, that is, the tendency in such plans for benefits to be based on the average earnings of the employee during his last ten years of service, instead of on his average earnings over his entire period of credited service. Provisions of this kind are likely to be favourable to the employee, since his earnings are normally higher towards the end of his employment and his average earnings over the laset ten years are higher than the average over his entire period of credited service.

Other plans, as shown in Table 4, use such periods of service as the ten highest paid years, the ten highest paid consecutive years, the last five years, and even, in two cases, the last year.

Still another plan provides 40 per cent of the average of the employee's five consecutive years of highest earnings, provided he has fulfilled a service requirement of 20 years.

In this latter plan, and in the 26 plans listed in Table 4 (as in all but one of the contributory plans), the benefits are based on both the earnings and the years of credited service. However, the benefits can also be a flat amount per year of credited service. Provisions of this kind are frequently found in those plans which have been negotiated through collective bargaining. In such cases the amount of pension benefit does not vary with salary. For example, if the benefit is two dollars per month per year of service, an employee with 25 years of service would receive $50 monthly, whatever his salary. Six non-contributory plans with this type of unit-benefit can be listed as follows:—

Plan	Monthly Benefit
1	$1.40 multiplied by the number of years of credited service.
2 & 3	1.50 multiplied by the number of years of credited service.
4	2.00 multiplied by the number of years of credited service.
5	2.16⅔ up to age 70 (1.83⅓ multiplied by years of service after age 70).
6	3.50 monthly multiplied by years of service.

Four other plans provide a maximum pension of a stipulated amount per month, provided a stipulated period of service has been fulfilled. These are as follows:—

Plan	Monthly Benefit
1	$ 50 after 10 years of service
2	55 after 30 years of service (proportionately less for less service)
3	75 after 30 years of service (proportionately less for less service)
4	100 after 10 years of service (less 10 per cent for each year of service under 10)

TABLE 5.—EMPLOYEE CONTRIBUTION RATES IN 214 PLANS

Employee Contribution	Contributory Plans		Non-Contributory Plans		Total
	Unit Benefit Plans	Money Purchase Plans	Unit Benefit Plans	Money Purchase Plans	
No employee contribution	....	....	37	1	38
2 per cent of earnings	1	4	....	....	5
3 " "	11	10	....	....	21
3½ " "	7	....	....	....	7
4 " "	43	10	....	....	53
4½ " "	9	....	....	....	9
5 " "	43	22	....	....	65
6 " "	1	1	....	....	2
4, 5 or 6 per cent of earnings (employees' option)	....	2	....	....	2
Rate of employee contribution varies with age or earnings	5	6	....	....	11
Flat amount	1	....	....	....	1
Total	121	55	37	1	214

All the non-contributory plans providing benefits of the above type were introduced within the last few years and most of them were the result of collective bargaining negotiations.

Summary

There is a wide variety in contribution and benefit formulas in the different categories of the 214 pension plans studied.

Three types of contribution formula predominates: 30 per cent of the plans call for an employee contribution of five per cent of his earnings, 25 per cent call for a four-per-cent contribution, while in 18 per cent of the plans the employer bears the entire cost (Table 5).

In some 40 per cent of the plans the employee may look forward to an annual pension consisting of 1½ per cent of his average annual earnings (the average usually being calculated on the basis of his entire period of credited service, but sometimes on a shorter period) multiplied by his total number of years of credited service (Table 6). The remaining plans show considerable variety in their benefit formulas. Of those which express pension benefits as a percentage of earnings, approximately the same number use less than 1½ per cent and more than 1½ per cent.

It should again be emphasized, however, that comparisons of the liberality of the plans should take into account the fact that the present study does not deal with such "fringe" values as vesting, disability pension, early retirement and death benefits. Vesting, involving as it does the right of the employee, if he decides to change his employment, to retain all or part of the money contributed to the pension fund on his behalf by the employer, is of particular importance in calculating the cost of a pension plan.

In general, it can be said that a pension plan containing the features most typically found in large Canadian firms would provide, on a contributory basis, a pension unit of 1½ per cent of earnings for each year of service with the company after the introduction of the plan. For that pension benefit, along with such other "fringe" benefits as the plan may provide, the employee pays 4 to 5 per cent of his earnings. To cover the balance of the cost, the employer matches or exceeds the employee's contribution, in addition to meeting the plan's administration expenses.

It has not been possible in this study to assess the present trends in the contribution and benefit formulas of pension plans in Canada. It may, however, be noted that the non-contributory plans are in general of more recent origin than the contributory plans and are more likely to have been introduced through collective bargaining.

TABLE 6.—PENSION BENEFITS IN 214 PLANS

Future pension benefit*	Contributory Plans		Non-Contributory Plans		Total
	Unit Benefit Plans	Money Purchase Plans	Unit Benefit Plans	Money Purchase Plans	
¾ of 1 per cent of employee earnings	....	....	1	....	1
1 " " " " " " "	1	....	....	....	1
⅞ " " " " " " "	....	....	2(a)	....	2
⅗ " " " " " " "	2	....	17(b)	....	19
1⅛ " " " " " " "	1	....	1	....	2
1¼ " " " " " " "	4	....	1	....	4
1½ " " " " " " "	81(c)	....	3(d)	....	84
1⅗ " " " " " " "	5	....	....	....	5
1⅔ " " " " " " "	2	....	....	....	2
1¾ " " " " " " "	8	....	....	....	8
2 " " " " " " "	16(e)	....	1	....	17
Not stated (money purchase or composite plan)	....	55	....	1	56
Flat amount (not related to salary)	1	....	11	....	12
Total	121	55	37	1	214

* Pension benefits are based on the stated percentage of employee earnings over the entire period of credited service, except as otherwise indicated by footnote.

(a) Average annual earnings are based on 10 highest consecutive years.

(b) Average annual earnings are based on 10 highest consecutive years in 1 plan, on 10 highest years of service in 1 plan, on last ten years of service in 9 plans, on last 5 years of service in 2 plans and on the salary of the last year of service in one plan.

(c) In two plans, average annual earnings are based on 10 last years of service.

(d) Benefits are based on annual earnings in last year of service in one plan, and on the 10 highest paid years in one plan.

(e) In two plans, average annual earnings are based on 10 last years of service.

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Types of Retirement Policy

One significant result of the widespread growth of pension plans in Canada in the past dozen years has been the increasing extent to which firms have had to formalize their retirement policy.

Since the cost of a pension plan depends in part on the age at which benefits will become payable, it becomes necessary for an employer (or employer and union jointly if the plan is negotiated) to make policy decisions on a number of matters connected with retirement. These include not only the normal age of retirement, but whether or not retirement is to be compulsory at that age, what shall be the effect on the worker's pension rights if retirement is postponed, and whether to have different retirement policies for men and women workers.

This article reports how pension plans in effect in the larger Canadian firms deal with retirement policy. The 214 plans studied are all in firms each of which, including their branch establishments, employs at least 500 workers. The plans cover both salaried employees and wage earners, and are representative of most sectors of Canadian industry. Other characteristics of the plans were described in the first article in this pension series.

Types of Retirement Policy

All the 214 plans examined provide a "normal" retirement age. In almost every plan this age is 65 for male employees but fewer than a quarter of the plans specify the same age for women; the age more commonly mentioned for female employees is 60.

Normal retirement age, however, is not necessarily the age at which the employee is obliged to retire. The actuarial calculations involved in the setting up of a pension plan make necessary the designation of a "normal retirement age" at which pension payments will normally become payable. However, it is quite possible, within the scope of a pension plan, to defer a worker's retirement past the so-called "normal" age. In such a case the payment of the pension may also be deferred and (frequently) its size increased; or, alternatively, provision may be made for the worker to receive his pension along with his salary.

Thus the adoption of a pension plan, while making necessary a considerable degree of formalization of retirement policy, need not affect the company's freedom to determine whether this policy shall be flexible or rigid.

A variety of factors will influence the decisions of an employer regarding retirement policy. Different retirement arrangements may be appropriate for managerial occupations, highly skilled jobs, or jobs requiring strenuous physical effort. On the other hand, the employee's desire to stay at work will depend largely on the size of his pension and on individual circumstances: family responsibilities, health, and the satisfaction he derives from working.

The present survey indicates that few pension plans are so rigid as to deprive employers irrevocably of the opportunity to retain the services of some of their experienced employees past their normal retirement age. Thus, in only a small minority of plans is retirement compulsory at normal retirement age (*see* Table 1); only 21 plans have clauses which clearly do not contemplate the possibility of deferred retirement.

Most of the remaining plans (164) specifically provide for the possibility of delayed retirement.* However, there is considerable variation in the amount of flexibility that the provisions of these plans permit.

*The remaining 29 plans could not be classified as to retirement policy, apart from their provision for a normal retirement age.

TABLE 1.—EXTENT TO WHICH PROVISIONS FOR COMPULSORY RETIREMENT OR DELAYED RETIREMENT ARE FOUND IN 214 PENSION PLANS

Plans with specific provision for compulsory retirement at normal retirement age	21
Plans that permit postponement of retirement beyond normal retirement age	164
—at employers' request	
with later compulsory retirement age*	5
with no specified compulsory retirement age	53
—at employees' request	
with later compulsory retirement age*	17
with no specified compulsory retirement age	66
—no formal request needed	
with later compulsory retirement age*	10
with no specified compulsory retirement age	13
Plans with normal retirement age but no indication as to whether delayed retirement is permitted	29
Total	214

* The total number of plans that permit delayed retirement but which also have a later compulsory retirement age is 32. Adding to these the 21 plans with compulsory retirement at normal retirement age, a total of 53 plans have a compulsory retirement age.

A few plans (13) contain no suggestion of compulsory retirement, either at normal age or later. In such cases the "normal" retirement age is in fact merely the "minimum" age at which the worker may retire and draw full pension benefits. He is at liberty to go on working beyond this age as long as his work is satisfactory to his employer, and no formal procedure is necessary to enable him to do so.

An additional ten plans are similarly flexible regarding "normal" retirement age but provide for compulsory retirement at a later age.

On the other hand, in the remaining 141 of the plans that provide for delayed retirement, the "normal" retirement age takes on more significance. In these plans retirement is expected to take place at this age and will in fact take place unless permission is granted for the employee to continue at work. Delayed retirement thus becomes a matter for specific decision.

In some of these plans (58), retirement is automatic unless the company decides to ask the employee to remain at work. The remaining 83 plans have a somewhat different procedure, under which the request to remain at work can be initiated by the employee. In either case, of course, delayed retirement is a matter for mutual agreement; but the second type of plan appears to leave more scope to the employee.

Presumably there is considerable variation from company to company in the strictness with which a clause of either kind is administered. Many of the plans, however, indicate that late retirement is permitted only under "special" circumstances; others appear to treat it as a more usual procedure. Twenty-two provide for a later compulsory retirement age.

Under some plans the request for delayed retirement is considered by a joint board on which the employees or their union are represented. A number of plans state that cases of deferred retirement will be subject to annual review by the company.

Examination of files taken from a random sample of contracts administered by the Annuities Branch of the Department of Labour gives evidence of the variation in administrative practice of different companies. In some plans with a clause permitting delayed retirement, it is clear that almost all the employees are in fact retiring at normal retirement age; in others, a somewhat larger group (but in no case a majority) are taking advantage of the clause.

A thorough inquiry into the practices actually followed by employers is outside the scope of the present study. The significant fact brought out by examination of the retirement provisions of pension plans is that in a majority of the plans, the possibility of a flexible retirement policy exists, whether or not such a policy is actually followed in practice.

In addition to the clauses described above, most plans provide also for retirement at earlier than normal retirement age, in cases of sickness or for other reasons. The provisions of early retirement clauses were not analysed in the present study.

Variations in Age of Retirement

The normal retirement age for men specified in almost all the plans (203 out of 214) is 65. Five plans go as high as age 70 and three as low as 60. With few exceptions, however, the plans reflect the popular concept of 65 as the age at which retirement either takes place or is at least seriously considered (*see* Table 2).

TABLE 2.—NORMAL RETIREMENT AGE FOR MEN AND WOMEN SPECIFIED IN 214 PLANS

Ages	Men		Women	
	No.	%	No.	%
70	5	2·3	2	1·0
68	1	·5	1	·5
65	203	94·8	47	24·0
62	1	·5		
61	1	·5		
60	3	1·4	130	66·3
55			16	8·2
	214	100·0	196*	100.0

*In 18 firms, either there are no women employees or the plan applies to men employees only.

TABLE 3.—DISTRIBUTION OF 196 PLANS COVERING BOTH MALE AND FEMALE WORKERS, SHOWING NORMAL RETIREMENT AGES

Normal Retirement Age: Men	Normal Retirement Age: Women	Number of Plans	Per Cent of Plans
70	70	1	·5
70	65	4	2·0
68	68	1	·5
65	70	1	·5
65	65	43	22·0
65	60	128	65·3
65	55	14	7·2
62	60	1	·5
60	60	1	·5
60	55	2	1·0
Total........		196	100·0

For women there is much less uniformity in normal retirement age. The most commonly specified age, 60, is found in only two-thirds of the plans. An appreciable number specify 65 or 55, and two go as high as 70.

Comparing the normal retirement ages mentioned in the same plan for men and women (Table 3) it appears that in most cases women are expected to retire about five years earlier than male employees. This is the case in about two-thirds of the plans (134 out of 196). In most of the other plans the normal retirement age is the same for both sexes, but in 14 plans the age for women is 10 years less than for men. In one case the age given for women is five years greater than for men covered by the plan.

Women in general have a longer life expectancy than men. Thus, even if female employees retire at the same age as men, it is more costly to provide them with a pension. It is even more costly to provide them with a pension, of course, if they retire at an earlier age than men.

Among the 53 plans which have a compulsory retirement provision (*see* Table 4), 70 is the age most frequently designated. Most of the remaining plans specify 65. In only one case is retirement compulsory below age 65, while in two cases retirement is not obligatory until age 75.

For women the compulsory principle sometimes applies as low as age 60 (17 plans), although 13 plans specify age 65, and 18 plans age 70 as the age for compulsory retirement.

Effect of Late Retirement on Pensions

In plans where actual retirement may take place at later than the normal retirement age, several decisions must be reached as to the effect of late retirement on the employee's pension contributions and on his benefit rights.

As to contributions, almost all the plans studied indicate (if they are contributory) that the employee's contributions to the pension fund will cease at normal retirement age. Of the 164 plans that allow delayed retirement, only nine provide for the continuation of contributions, either until actual retirement or until a specified maximum age, usually 70.

The question also arises as to when pension benefits will start. From the point of view of the agency underwriting the plan, the employee becomes entitled to his pension at normal retirement age, and many plans accordingly provide that his

TABLE 4.—AGE AT WHICH RETIREMENT BECOMES COMPULSORY IN 53 PLANS WITH A COMPULSORY PROVISION

Retirement Age	Retirement Compulsory at Normal Retirement Age: Male	Retirement Compulsory at Normal Retirement Age: Female	Retirement Compulsory at Later than Normal Retirement Age: Male	Retirement Compulsory at Later than Normal Retirement Age: Female	Total: Male	Total: Female
	No. of Plans	No. of Plans	No. of Plans	No. of Plans	No. of Plans	No. of Plans
75	....	....	2	....	2	....
70	1	....	26	18	27	18
69	....	....	1	1	1	1
68	....	....	2	1	2	1
66	....	....	1	1	1	1
65	19	4	....	9	19	13
62	1	....	....	....	1	....
60	....	17	....	....	....	17
Total	21	21	32	30	53	51

NOTE: In two firms either there are no female employees or the plan applies to male employees only.

pension will in fact start at that age, regardless of whether he actually retires then or not. Under such plans the employee, if he continues to work, draws both his pension and his salary or wages.

Alternatively, pension payments may commence at actual retirement. The 150 plans for which information was available on this point were fairly evenly divided, with 68 plans specifying that the pension starts at normal retirement age and 79 that it starts at actual retirement. In three cases the employee is given his choice of the two methods (*see* Table 5).

When pension payments are deferred, the employee usually becomes eligible for a higher pension, the actuarial equivalent of the amount he was entitled to at normal retirement age (44 plans out of 62 for which information was available). In 18 plans, however, the pension is the same as would have been received at normal retirement date. In these latter cases, of course, postponing the retirement of an employee means a lowering in the cost of the pension plan, thus providing a certain inducement to the employer to permit late retirement.

Actuarial calculations show a saving of 7 to 10 per cent for each year of late retirement when pension payments are deferred. This saving is accounted for, first, by the accruing interest on the unpaid capital sum, and second, by the lesser number of years for which pension payments will eventually have to be made. It may be applied either to increase the size of the pension (as in the 44 plans referred to above) or to lower its cost (as in the remaining 18).

As an example of how late retirement may be used to increase pension benefits, one may consider a hypothetical sum of $8,000, fully funded for a given male employee who has attained normal retirement age of 65. According to the 1937 Standard Annuity Table currently used by most underwriters, a man of 65 will live, on the average, 14·4 years. The sum of $8,000 would yield at 3 per cent an annual pension of approximately $721 if pension payments start at 65. If actual retirement is postponed for three years, life expectancy is reduced to an average of 12·7 years, according to the table. Meanwhile, if 3 per cent compound interest has accrued to the original $8,000, the worker will become eligible at 68 for a yearly pension of $877.

On the other hand, if the worker's annual pension is not increased, that is if at age 68 he receives only the $721 he would have

TABLE 5.—METHOD OF PENSION PAYMENT IN 164 PENSION PLANS THAT PERMIT DELAYED RETIREMENT

When Pension Payments Start

Plans that permit delayed retirement	164
Pension payments start at normal retirement age	68
Pension payments start at actual retirement	79
Option	3
No information	14
Total	164

Size of Pension, when Payment Starts at Actual Retirement

Pension payments start at actual retirement (including three optional plans)	82
Pension is increased to actuarial equivalent	44
Pension is same at actual retirement as at normal retirement age	18
No information	20
Total	82

received had he retired at age 65, the cost of providing his pension will have been reduced from $8,000 to $6,300.

Conclusion

There has been much interest in recent years, both in Canada and other countries, in the employment problems of the older worker. Attention has frequently been called to the wastage, both economic and social, caused by the compulsory retirement of employees at a fixed age, whether or not they are still able to perform their duties capably.

The main purpose of a pension plan is to provide security for the worker in his old age. The fear has sometimes been expressed that the widespread introduction of industrial pension plans in some cases produces the conflicting result of actually reducing the income of older workers by enforcing their retirement while they are still fully competent to carry on in their regular employment.

Compulsory retirement may have the effect of throwing the worker into the labour market at an age when it is difficult for him to find a new job, even though his skill and experience would still have been extremely useful to his old employer, either in his accustomed job or in work of a somewhat less arduous nature.

Fortunately, as the present study has shown, it is entirely possible for an employer both to provide the advantages of a pension plan and also to maintain a flexible retirement policy under which the actual time of retirement is a matter that can be considered on an individual basis for each worker, in the light of his own needs and wishes and those of his employer.

TABLE 6.—DISTRIBUTION OF PLANS BY TYPE OF RETIREMENT POLICY AND BY NORMAL RETIREMENT AGE

Normal retirement age	Retirement compulsory at normal retirement age	Delayed Retirement Permissible						No information as to retirement policy except as to normal retirement age	Total
		At employer's request		At employee's request		No formal request needed			
		With later compulsory retirement age	With no specified compulsory retirement age	With later compulsory retirement age	With no specified compulsory retirement age	With later compulsory retirement age	With no specified compulsory retirement age		
	No. of Plans	No. of Plans	No. of Plans	No. of Plans	No. of Plans	No. of Plans	No. of Plans	No. of Plans	No. of Plans
Male									
70	1	—	1	—	—	1	—	2	5
68	—	—	1	—	—	—	—		1
65	19	5	51	17	65	8	12	2(	203
62	1	—	—	—	—	—	—	—	1
61	—	—	—	—	1	—	—	—	1
60	—	—	—	—	—	1		1	3
Total	21	5	53	17	66	10	13	29	214
Female									
70	—	—	1	—	—	—	—	1	2
68	—	—	1	—	—	—	—	—	1
65	4	2	16	3	12	5	1	4	47
60	17	3	33	13	45	3	4	12	130
55	—	—	—	—	2	1	7	6	16
Total	21	5	51	16	59	9	12	23	196

The study of retirement provisions in 214 plans indicates that most formal pension plans do not in themselves constitute a barrier to the retention in employment of the efficient older worker. The provisions of the majority of the plans studied are not rigid and inflexible but do allow scope for the exercise of a considerable amount of flexibility in retirement policy. However, the extent to which those who administer retirement policies make use of optional features in their plans is not known.

The continued existence in industrial pension plans of a comparatively early "normal" retirement age is obviously important in that it preserves the worker's freedom to retire if he so wishes. But the trend towards longer life expectancy will make it increasingly desirable, for broad economic and social reasons as well as from the point of view of the individual worker and his employer, that the freedom be also retained for the worker to continue on the job if he so wishes as long as he is capable of competent performance, and for his employer thus to benefit by his skill and experience.

Vesting Provisions

The basic purpose of a pension plan is to provide financially for workers after their retirement; but all workers do not continue working with the same firm until retirement. A worker may leave his job before reaching normal retirement age, and a problem then arises as to what should be done with the contributions to the pension plan made by him or on his behalf by his employer.

Analysis of the plans which form the basis of the present study indicates that the worker's own contributions are invariably credited to him. As will be seen later, there are significant differences in the manner of repayment, but he is seldom obliged to forego any part of the amount he has himself contributed to the pension fund.

In the disposition of the employer's contributions, however, there is considerably more variety in the practices followed. It is with this problem that the "vesting" provisions of a pension plan are designed to deal, by specifying whether any of the employer's contributions are to be credited to the worker, and if so under what conditions.

Vesting may be of importance to the worker under various circumstances. The occasion that arises most frequently is when the worker leaves his job before having attained the normal age of retirement. It is with this aspect of vesting that the present article deals. Other circumstances, not dealt with here, are those of disability or death before or after retirement or termination of employment. The article is further simplified in that it analyzes the vested right to the contributions paid for "future service" only, that is, for years of service after the introduction of a pension plan. It does not deal with the problem of vesting as it relates to "past service" contributions, which apply retroactively to an employee's years of service prior to the plan's introduction.

The great majority of the plans studied do provide for vesting of employer contributions. To say this, however, is to say very little, for the nature of vesting provisions varies greatly. Most plans set forth conditions which must be met before the worker is entitled to vesting rights in any of the money contributed by his employer to the pension plan on his behalf.

For example, most plans do not provide for the full vesting of the employer's contributions if the worker leaves before putting in a certain minimum number of years of service, usually at least ten years. Under some plans a worker gradually builds up a vested right to a higher and higher proportion of his employer's contributions, year by year. In some cases he must achieve a particular age before he acquires vesting rights. Combinations of these requirements are found in many plans.

The nature of various types of vesting provisions is dealt with in this article, which also shows the extent to which they appear in the 214 pension plans studied. The article also deals with the method of repayment of contributions, and discusses briefly the impact of vesting provisions on labour mobility.

Frequency of Vesting Provisions

Of the 214 plans which form the basis of the present study, 175 provide for the vesting of employer contributions and 39 do not.

One reason for the preponderance of plans with vesting (82 per cent) has to do with Canadian income tax requirements, which provide certain standards of protection for the worker in regard to the vesting of the employer's contributions. An industrial pension plan must be approved by the Income Tax Division of the Department of National Revenue in order that the money contributed to the pension fund by an employer may be deductible for income tax purposes. One of the normal requirements for such approval[1] is that there must be full vesting of the employer's contributions by the time the worker has attained age 50, subject to his completion of 20 years of service with the company or participation in the plan.

Exception to this requirement is sometimes made under certain circumstances, for example, in the case of negotiated pension plans. If the Income Tax Division is satisfied that the pension plan has been negotiated through collective bargaining, it takes this as evidence that the plan is satisfactory to workers and management and may approve the plan, even though it lacks vesting provisions, if it otherwise meets desirable standards.

[1]Pension Plans for the Purpose of the Income Tax Division, Statement of Principles and Rules, issued by the Department of National Revenue, Taxation Division.

Types of Vesting Provision

From the worker's point of view, the most liberal type of vesting provision is that which gives him an immediate vested right to the employer's entire contributions. Such a plan gives him full freedom of movement, in that he can change his employment without losing any financial entitlement under the pension plan. Such plans are, however, comparatively expensive, and are not common. They are said to provide for "immediate vesting".

More commonly, a pension plan does not give the worker any benefits from the employer's contribution until he has been employed or has participated in the plan for a certain number of years. If he leaves his job beforehand he is entitled to the benefits of his own contributions to the pension fund but not his employer's. This type of plan is said to provide for "deferred vesting".

Some plans provide for a system of "graded" vesting, whereby the proportion of the employer's contributions that vests in the employee increases year by year until the entire amount is vested. In other plans the employee has "full" vesting as soon as he has any vesting at all; there is no intermediate stage, such as occurs in "graded" plans, during which he has partial vesting rights. Plans with "full" vesting were slightly more common than plans with "graded" vesting among those studied.

By combining the two distinctions made above, it is possible to speak of four basic types of vesting provisions: (1) immediate full; (2) immediate graded; (3) deferred full; (4) deferred graded.

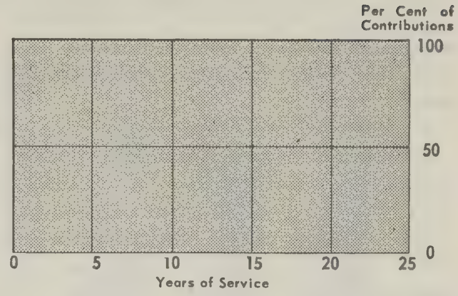
The first two types of plan are not common. Only six plans provide immediate full vesting of the employer's contributions, and only two immediate graded. More typically the worker has to put in a number of years of service before he acquires any vested rights. As shown in Table 1, 88 plans have deferred full and 79 have deferred graded vesting provisions.

TABLE 1.—TYPES OF VESTING PROVISION IN 214 PENSION PLANS

Type of Provision	Number of Plans	Per Cent of Plans
Plans with no vesting provisions	39	18
Plans with "immediate full" vesting	6	3
Plans with "immediate graded" vesting	2	1
Plans with "deferred full" vesting	88	41
Plans with "deferred graded" vesting	79	37
Total with vesting	175	82
Total Plans	214	100

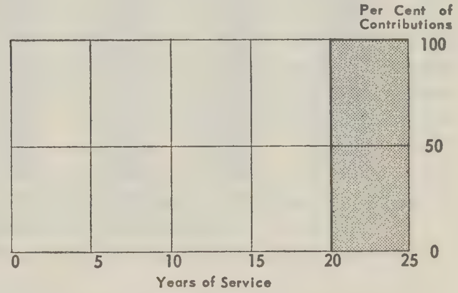
TYPICAL VESTING FORMULAS

Only rarely is a worker unconditionally given an immediate vested right to his employer's entire contributions to a pension plan (immediate full vesting), thus:-



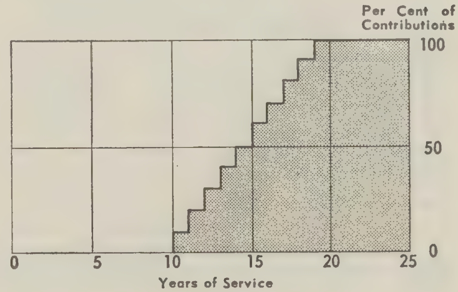
More commonly, he is not given any part of the employer's contributions until he has fulfilled certain requirements, usually a specified number of years of service.

In some plans, he is entitled to the full amount of the contributions after a stated number of years' service, e.g., 20 years' (known as deferred full vesting), thus:

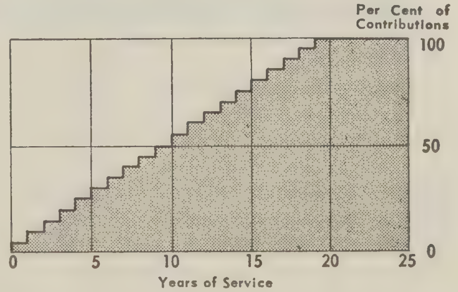


In another type of plan, he is entitled to a share of the contributions after a minimum service requirement is fulfilled, the share increasing by specified proportions until he is given a full vested right (this is described as graded vesting).

For example, under one formula, there are no vesting rights in the first ten years of service; at the end of 10 years, a vested right in 10 per cent of the contributions is given, increasing by 10 per cent each year so that full vesting rights are gained at the end of 19 years of service, thus:



In some plans graded vesting may begin immediately the worker joins the plan: he becomes entitled to 5 per cent of the contributions in his first year of service and an additional 5 per cent each year until he achieves full vesting rights after having completed 20 years' service, thus:



Service Requirements for Vesting

As noted above, the Department of National Revenue will normally approve a plan which provides for the complete vesting of employer contributions by the time the worker has put in 20 years of service.

A substantial proportion of the pension plans studied, however, contained vesting provisions more liberal than this standard.

As shown in Table 2, about one-seventh of the plans with vesting provisions provide for full vesting by the time the worker has participated in the plan for 10 years. In more than half the plans, however, full vesting occurs only after 20 years' service.

In 48 plans the worker has no vesting rights until the 20-year period has been completed. More commonly, however, the worker has built up fairly substantial vesting rights at an earlier stage.

A fairly typical formula grants the employee the right to 50 per cent of the employer's contributions after 10 years of service, with a 5-per-cent increase for each additional year of service, so that the employer's contributions vest in full after 20 years of service.

This and other common formulas are shown in Chart 1.

An attempt has been made, in Table 3, to show what the various plans offer the worker in regard to employer vesting at various stages in his working career.

A worker who has put in six years of service, for example, would have acquired no vesting rights under 184 of the 214 plans, the table shows. Under 10 plans, however, the worker with six years' service would have acquired full vesting, while under the remaining 20 he would have acquired partial vesting rights.

TABLE 2.—SERVICE* REQUIREMENTS FOR FULL VESTING IN 175 PENSION PLANS WITH VESTING PROVISIONS

—	Plans with graded vesting before full vesting		Plans with full vesting only		Total	
	Number	Per Cent	Number	Per Cent	Number	Per Cent
Plans with immediate full vesting	....	....	6	7	6	3
Plans with full vesting after:						
Less than 10 years	....	....	4	4	4	2
10 years	2	2	15	16	16	9
11-14 years	4	5	....	....	5	3
15 years	12	15	18	19	31	18
19 years	6	7	....	....	4	2
20 years	54	67	48	51	102	59
More than 20 years	3	4	3	3	7	4
Total	81	100	94	100	175	100

* Some plans refer to years of "participation" rather than years of "service" in establishing the requirements for vesting. Some refer to both. For purposes of the present table, all plans have been included, and tabulated by years of service wherever possible; otherwise by years of participation.

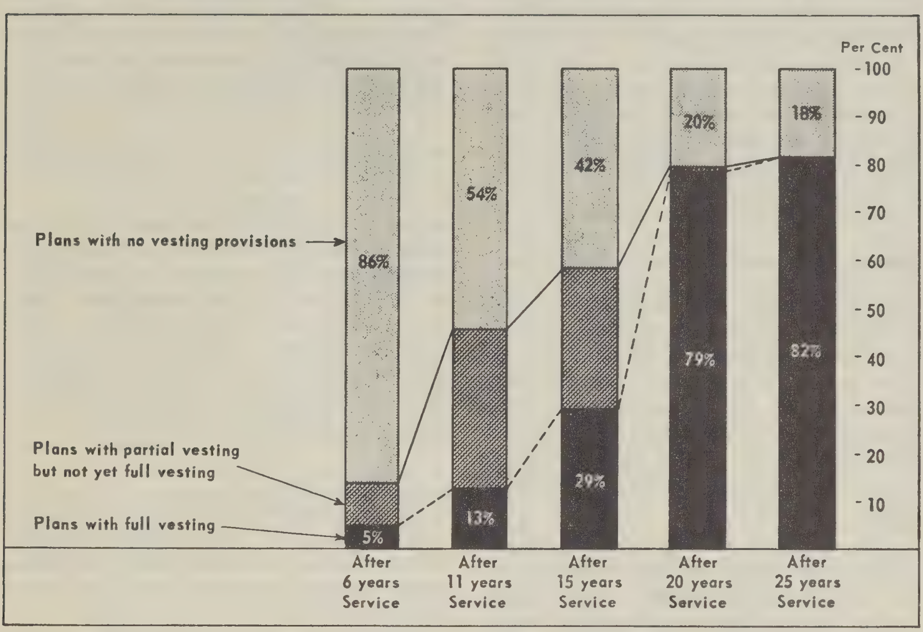
TABLE 3.—PROPORTION OF EMPLOYER'S CONTRIBUTIONS VESTING IN EMPLOYEE AFTER SELECTED PERIODS OF SERVICE* IN 214 PENSION PLANS

Years of Service or Participation	Percentage of Employer's Contributions Vesting in Employee						Total
	Nil	10-24%	25-49%	50-74%	75-99%	100%	
	No. of Plans	No. of Plans	No. of Plans	No. of Plans	No. of Plans	No. of Plans	
6 years	184	8	8	4	....	10	214
11 years	115	27	13	31	1	27	214
15 years	90	....	....	47	16	61	214
20 years	42	....	....	....	3	169	214
25 years	39	....	....	....	....	175	214

* Some plans refer to years of "participation" rather than years of "service" in establishing the requirements for vesting. Some refer to both. For purposes of the present table, all plans have been included, and tabulated by years of service wherever possible; otherwise by years of participation.

CHART 2

Extent to which Pension Plans Provide Vesting after Different Periods of Service



A worker with 11 years' service would have acquired full vesting rights under 27 plans and partial rights under 72 others. He would still be without any vesting rights at all, however, under 115 plans, more than half the total.

After 15 years, as the table shows, the balance shifts, and a majority of the plans provide for at least 50-per-cent vesting of the employer's contributions.

By 20 years, of course, practically all the plans provide for full vesting, except for those plans which lack a vesting provision altogether.

Non-Service Requirements for Vesting

Although most pension plans refer to years of service in their vesting clauses, an appreciable number refer instead to years of participation in the plan. Some plans have both "service" and "participation" requirements.

A requirement for "years of participation" in the plan is usually stricter than a service requirement. Many plans provide a waiting period before an employee may enter the pension plan. Thus, for an employee who starts work in a firm which already has a pension plan in operation, years of participation would be the same as years of service less any waiting period which may be required before entry into the plan.

The distinction between "years of service" and "years of participation" is also important when a plan is introduced. At the time a pension plan is set up, all employees have some "service" with the company, but no "participation" in the plan. A provision that allows an employee to count years of past service is obviously more useful to him than a clause allowing him to count only years of participation.

In Tables 2 and 3, plans which refer to years of participation (the minority) have been included with those which specify years of service, for purposes of convenience of analysis.

A number of plans include age requirements in their vesting formula. Usually, in such cases, a worker must reach a specified age *and also* have put in a specified number of years of service or participation in the plan before he is eligible for vesting.

Age requirements are seldom found in plans which provide for graded vesting, although this sometimes happens. In one plan a quite elaborate formula is used, providing for percentages of vesting which vary with both age group and years of service.

The age most frequently stipulated for male workers is 50 (see Table 4), in those plans which combine an age with a service or participation requirement. A lower age is sometimes set for females.

It should be noted that a few plans have a provision making age an *alternative* requirement to years of service. Under such plans an employee acquires full vesting rights at the age specified (usually 55) regardless of whether or not he has built up the customary service requirement.

Contributory and Non-contributory Plans

A contributory pension plan is one to which the employee, as well as the employer, contributes; a non-contributory plan is one to which the employee does not contribute, being financed entirely by the employer. A wide degree of difference was found between the vesting practices of contributory and non-contributory pension plans.

Only one-third of the non-contributory pension plans have vesting provisions at all (13 out of 38), while more than 90 per cent of the contributory plans have vesting provisions. There are a number of possible reasons for this difference.

A non-contributory plan, since it is financed entirely by the employer, is naturally more expensive to the employer than a contributory plan, provided that other things, such as benefits granted, are equal. The elimination of vesting provisions makes it possible to achieve a higher level of retirement benefits for a given cost.

Further, many of the non-contributory plans are negotiated, and thus may not have to allow for the vesting of the employer's contributions in order to qualify for exemption from taxable income. Since benefit levels are likely to be the primary concern of employees or of union negotiators, the inclusion of liberal vesting provisions might not be pressed for in bargaining.*

Non-negotiated plans, however, which are more likely to be contributory plans, must normally provide for full vesting after either the attainment of age 50, or the completion of 20 years of service or participation in the plan by the employee, in order to receive tax exemptions. Thus it is possible for the negotiated plan, which is more likely to be a non-contributory plan, to offer less liberal vesting provisions than a non-negotiated plan, and still to qualify for tax deductions.

*The interest of unions in this general problem is, however, illustrated by a resolution of the fourteenth Annual Convention of the Canadian Congress of Labour urging the Federal Government to establish an "industrial pension plan" which would allow pension plan credits to accrue irrespective of the number of employers a worker has been with (L.G., Oct. 1954, p. 1407).

TABLE 4.—AGE REQUIREMENTS FOR COMPLETE VESTING IN 169 PENSION PLANS WITH DEFERRED VESTING PROVISIONS*

No age requirement (years of service and/or participation only)	128
Age requirement combined with service and/or participation requirement	34
Age requirement alternative to service and/or participation requirement	7
	169

* Includes 2 plans with "immediate graded" vesting.

Disposition of Contributions

The worker who changes his employment is sometimes given the alternative of taking contributions in cash or in the form of a deferred annuity.

This is a matter which obviously has important implications as to the way in which industrial pension plans will meet the objective of providing security for workers in their old age.

In regard to the return of employer contributions, almost all the plans require the worker to take a deferred annuity. This is the case in 165 out of 175 plans; in 6 of the other 10, the employee must take cash, while in 4 he is given an option of cash or annuity.

In many cases, of course, a worker will not remain in a job long enough to build up a vested right in the employer's contributions. If, however, he is able to invest his own contributions in a deferred annuity, he will have made some progress towards building up an income for himself when he retires, even though, by changing his employment, he loses his right to his employer's contributions.

The method by which his own contributions are returned to him thus acquires considerable significance.

Of a total of 173 plans for which there is information, in only 13 must the worker take a cash payment, compared to 56 plans in which he must take an annuity, to commence at normal retirement age or, in some cases, optionally earlier. In 104 plans the employee has the option of electing either an annuity or a cash payment. But

this figure is partly misleading, for of these 104 plans, 97 have provisions for the vesting of the employer's contributions, and in 63 of these 97 plans the employee cannot elect a cash option if the employer's contributions are to vest. Thus there is a strong incentive for the employee to elect to take payment in the form of a deferred annuity, provided he has been with the company long enough to have established a vested right to at least some proportion of his employer's contributions. Further, in approximately one-fourth of the 160 plans where the employee must or may take an annuity, he may continue his contributions after the termination of his employment in order to build up his annuity.

When the employee's service with the company is short, however, since there is generally a waiting period before the employee can enter the pension plan, and since the employer's contributions generally do not vest in the employee until after a considerable period of time, there would be no loss to the employee selecting a cash option. Further, in 30 of the 104 cash-annuity option plans, where the employee's service has been short, or where his annuity would be small, he cannot elect the annuity option. Thus, it becomes difficult for a worker who changes his employment to build up an annuity for his old age through the various industrial pension plans to which he may become subject in his various jobs.

As mentioned earlier, the contributions made by an employee towards a pension plan generally vest in that employee immediately and in full, with no deduction being made for administrative expenses. Nevertheless, the interest accumulated on the employee's contributions, and in some cases the amount of the employee's contributions returned to him, vary (see Table 5). In 24 cases his contributions would be returned to him with compound interest, in 29 cases with simple interest, in 55 cases without interest, while in the 6 "other" cases only the cash surrender value of the policy would be returned to him if he terminated his employment within the first few years of service.

Worker Security and Labour Mobility

While the basic purpose of a pension plan, from the employer's point of view, is to provide for the orderly retirement of the older worker, a secondary purpose may be to reduce turnover, particularly among his mature and skilled workers. If both these purposes operate effectively, the worker's security is assured in his old age and his mobility is curtailed during his working life. The vesting provision of a pension plan is the link between the worker's security and his mobility, and indicates the extent to which a worker may move from one job to another and still qualify for a pension on retirement.

Security under industrial pensions, as this study has shown, is not readily available to the mobile worker. This type of worker has difficulty in building up his pension credits. He is usually not entitled to any of the employer contributions made on his behalf. Moreover, as regards the return of his own contributions, he has little to lose, from the short-run point of view, in electing to take them in cash rather than in the form of a deferred annuity. He may, in fact, be obliged to do so in order to meet the expenses involved in changing his employment. Obviously, it is to the worker's long-run advantage to build up whatever pension credits he can through deferred annuities.*

*The Minister of Labour, Hon. Milton F. Gregg, called attention to this problem during the course of an address to the annual convention of the Canadian Congress of Labour, September 1954 (L.G., Oct., 1954, p. 1394).

TABLE 5.—RETURN OF EMPLOYEE CONTRIBUTIONS ON TERMINATION OF EMPLOYMENT PRIOR TO NORMAL RETIREMENT AGE, IN 176 CONTRIBUTORY PLANS

Method of Payment

Amount Returned	Cash	Deferred Annuity	Option of cash or annuity	Other(1)	Total
Accumulated Contributions only	9	5	40	1	55
Contributions plus Simple Interest	3	7	17	2	29
Contributions plus Compound Interest	1	3	20	0	24
Other	0	1	5	0	6
No Information	0	40	22	0	62
Total	13	56	104	3	176

(1) In one case, there is no information. In the other two cases, an annu ity is paid, except to women under 35 in one case, and with less than 15 years of service in the other.

By and large, however, the requirements for the complete vesting of the employer's contributions are such as to provide the fullest measure of security only to those workers who spend a substantial part of their working life with one employer (see Table 2). In only 12 of the 168 plans can the worker conceivably be entitled to full vesting with less than 10 years of service, and in 65 of them with less than 20 years of service. And in some of these cases, the attainment of a certain age, generally at least 45, is also required.

Consequently, the main area of conflict to be considered when dealing with vesting provisions is their impact upon labour mobility. While an employer instituting a pension plan desires thereby to be able to retire workers who have passed their productive peak, he also hopes to reduce the turnover of mature employees who would stand to lose financially should they terminate their employment prior to normal retirement age. The extent to which the mature worker contemplating a shift in jobs would stand to lose would depend upon the vesting provisions of the plan by which he is covered. Area pension plans covering a number of employers within the same industry would tend to minimize the importance of vesting provisions. However, until such time as pension credits are automatically transferred from one job to any other job, an area of conflict will exist between the employer's desire to retain skilled employees, by formulating the vesting provisions of his pension plan so as to make a shift in employment disadvantageous to such employees, and the employee's desire for liberal vesting provisions, so that a change of jobs would not entail a loss of pension credits.

Number of Workers Covered

The number of Canadian workers covered by pension plans has continued to increase steadily in recent years, according to information obtained from the annual surveys of working conditions conducted by the Economics and Research Branch, Department of Labour. As of April 1954, 70 per cent of the workers covered by the survey were employed in establishments in which pension plans were in operation, compared with 62·7 per cent in October 1951.

The total number of workers, office and non-office, covered by the 1954 survey was 1,824,000, of whom 1,260,000 were in establishments that reported having a pension plan. Not all these workers, however, were actually covered by the plans, since many of the plans had eligibility requirements based on age or length of service. In such cases, however, the younger or newer employees would expect to be covered ultimately if they remained in employment. A few of the establishments in the survey reported that their plans applied only to particular occupational groups. For purposes of the present statistics, such establishments were not included with those classified as having pension plans. Other establishments reported that their plans applied to male workers only. In such cases the figure for male employment was used where this could be ascertained. No figures are therefore available as to how many workers are actually covered out of the million and a quarter employees of firms where pension plans are in effect.

The 1954 survey covered 12,300 establishments in the main branches of Canadian industry, of which 5,600 reported the existence of a pension plan. This total of establishments would be considerably higher than the total number of pension plans actually in effect, since many of the reporting units are branches of firms which have a single pension plan for all their units.

The survey covered establishments employing about half the total number of wage and salary workers in the labour force. Establishments employing more than 80 per cent of such workers were surveyed in the mining, manufacturing and transportation

industries, but smaller proportions in other industries, ranging from 63 per cent in public utilities to about 40 per cent in trade and finance, and 11 per cent in service. Forestry and construction were not surveyed. In general, the survey covered establishments with 15 or more employees. The coverage in finance consisted of banks and the head offices of insurance companies. The service group included laundries, hotels, restaurants and municipalities.

The proportion of employees in establishments covered by the survey and reporting pension plans in each of these industries, as of April 1954, was as follows:—

Mining	61·0
Manufacturing	61·7
Transportation & Communications	91·6
Public Utilities	95·1
Trade	76·2
Finance	73·7
Service	65.6
Total	69·6

The survey results indicated clearly that larger firms are more likely than smaller ones to have pension plans. Less than half the establishments in the survey (45 per cent) reported that they had pension plans. However, this minority of establishments employed 70 per cent of the workers covered by the survey.

The growth in pension coverage over the past two decades is roughly indicated by camparing the results of the Economics and Research Branch surveys with two previous surveys conducted under different auspices and with different coverage.

In 1936-37, a survey by the National Employment Commission found that 8 per cent of Canadian establishments had a pension plan. Shortly after the war, in 1947, the Dominion Bureau of Statistics estimated the proportion to be almost 25 per cent. By 1951, according to the Economics and Research Branch survey, the proportion had risen to 37 per cent, and in 1954 to 45 per cent.

Present Coverage--Non-Office Workers

As of April 1, 1954, seven out of ten non-office employees covered by the survey of working conditions were employed in establishments in which pension plans were in operation (Table 1).

TABLE 1.—NUMBER OF EMPLOYEES IN ESTABLISHMENTS REPORTING PENSION PLANS, BY INDUSTRY, APRIL 1, 1954

NOTE: These figures do not represent the number of employees actually covered by pension plans, but the total number of employees in establishments in which a pension plan is in effect.

Industry and Industrial Group	Non-Office			Office		
	Number of Employees in Total Survey Coverage	Number of Employees in Reporting Units having Pension Plan	Per Cent	Number of Employees in Total Survey Coverage	Number of Employees in Reporting Units having Pension Plan	Per Cent
Mining	72,081	42,527	59·0	8,824	6,827	77·4
Gold mining	17,354	4,410	25·4	1,260	477	37·9
Coal mining	17,642	15,158	85·9	823	723	87·8
Other mining	37,085	22,959	61·9	6,741	5,627	83·5
Manufacturing	802,536	475,602	59·3	195,805	140,355	71·7
Durable goods	416,005	242,311	58·2	106,987	77,036	81·4
Non-durable goods	372,083	227,169	61·1	84,901	61,282	72·2
Miscellaneous	14,448	6,122	42·4	3,917	2,037	52·0
Transportation, Storage and Communication	232,104	210,481	90·7	66,053	62,694	94·9
Telephones	26,565	26,345	99·2	7,824	7,752	99·1
Steam railways	141,000	140,964	99·9	42,542	42,531	99·9
Other transportation	64,539	43,172	66·9	15,687	12,411	79·1
Public Utilities	24,538	23,115	94·2	14,846	14,344	96·6
Trade	158,722	119,731	75·4	65,458	52,129	79·6
Wholesale	32,318	21,645	67·0	35,243	27,794	78·9
Retail	126,404	98,086	77·6	30,215	24,335	80·5
Finance	2,529	1,283	50·7	60,322	45,021	74·6
Services	83,958	53,514	63·7	14,743	11,214	76·1
Other industries	19,744	11,069	56·1	2,028	1,689	83·3
Total	**1,396,212**	**937,322**	**67·0**	**428,079**	**334,273**	**78·1**

The highest percentage of coverage of non-office workers is in the Public Utilities group, in which 94 per cent of non-office workers are employed by establishments having pension plans. In the Transportation, Communications and Storage group, 91 per cent of non-office workers are employed by establishments having pension plans. Practically all railway and telephone companies have such plans.

While a figure is shown in Table 1 for non-office workers in the financial establishments covered by the survey, it should be remembered that these workers, commissionaires, maintenance personnel, etc., comprise only a small proportion of the total number of workers in the Finance group.

In Trade, 75 per cent of the non-office workers dealt with in the survey are shown as being employed in establishments having pension plans. As noted above, however, the present survey deals mainly with establishments having 15 or more employees; a considerable proportion of establishments in trade, especially in retail trade, have fewer than this number of employees, and are therefore not included in the survey. Pension plans probably occur much less frequently in such smaller establishments,

TABLE 2.—NUMBER OF EMPLOYEES IN ESTABLISHMENTS REPORTING A PENSION PLAN, BY MANUFACTURING GROUPS, APRIL 1, 1954

Manufacturing Group	Non-Office			Office		
	Number of Employees in Total Survey Coverage	Number of Employees in Establishments Reporting a Pension Plan	Per Cent	Number of Employees in Total Survey Coverage	Number of Employees in Establishments Reporting a Pension Plan	Per Cent
Food and Beverages	86,335	56,613	65·6	17,737	13,534	76·6
Tobacco and Tobacco Products	7,676	5,617	73·2	794	650	81·9
Rubber Products	14,382	12,110	84·2	4,425	4,030	91·1
Leather Products	21,404	3,207	15.0	2,250	414	18·4
Textiles (except Clothing)	46,910	29,930	63·8	7,354	5,398	73·4
Clothing (Textile and Fur)	62,207	16,820	27·0	6,443	1,913	29·7
Wood Products	59,017	17,691	30·0	6,366	2,135	33·5
Paper Products	65,645	55,165	84·0	13,015	11,371	87·4
Printing, Publishing and Allied Industries	28,273	12,930	45·7	15,735	8,691	55·2
Iron and Steel Products	122,684	79,140	64·5	32,593	20,657	63·4
Transportation Equipment	127,711	67,823	53·1	33,913	26,044	76·8
Non-Ferrous Metal Products	38,018	30,077	79·1	8,037	6,339	78·9
Electrical Appliances and Supplies	47,159	35,503	75·3	22,571	19,484	86·3
Non-Metallic Mineral Products	21,416	12,077	56·4	3,507	2,377	64·9
Products of Petroleum and Coal	9,407	8,842	94·0	2,876	2,715	94·4
Chemical Products	29,844	25,935	86·9	14,272	12,516	87·7
Miscellaneous Manufacturing	14,448	6,122	42·4	3,917	2,037	52·0
Total Manufacturing	**802,536**	**475,602**	**59·3**	**195,805**	**140,355**	**71·7**

TABLE 3.—NUMBER OF EMPLOYEES IN ESTABLISHMENTS REPORTING A PENSION PLAN, BY PROVINCE, APRIL 1, 1954

Province	Non-Office			Office		
	Number of Employees in Total Survey Coverage	Number of Employees in Reporting Units having Pension Plan	Per Cent	Number of Employees in Total Survey Coverage	Number of Employees in Reporting Units having Pension Plan	Per Cent
Newfoundland	15,919	9,164	57·6	3,115	1,781	57·2
Prince Edward Island	1,316	629	47·8	330	179	54·2
Nova Scotia	46,465	31,789	68·4	8,890	6,772	76·2
New Brunswick	23,807	14,324	60·2	5,026	3,412	67·9
Quebec	351,038	210,421	59·9	86,691	65,669	75·8
Ontario	569,702	371,069	65·1	168,936	131,476	77·8
Manitoba	54,229	36,472	67·3	17,664	13,528	76·6
Saskatchewan	21,127	14,888	70·5	6,491	5,337	82·2
Alberta	49,751	34,376	69·1	15,705	12,910	82·2
British Columbia	118,207	71,802	60·7	27,096	20,496	75·6
Grand Total (1)	**1,253,236**	**795,243**	**63·5**	**340,223**	**261,728**	**76·9**

(1) Canada Total includes Northwest Territories and excludes Steam Railways and Banks.

and it is therefore likely that the percentage of coverage in Trade as a whole would be considerably less than that shown for those establishments covered by the present survey.

The proportion of non-office employees in manufacturing who are in reporting units covered by pension plans is 59 per cent. While this is less than the percentage shown for some of the groups mentioned above, this group is numerically the largest covered by the survey and therefore has the highest pension coverage in absolute terms.

Table 2, which contains statistics of manufacturing broken down by industrial sub-groups, shows that the percentage of non-office employees in establishments reporting pension plans is higher in those industries in which establishments tend to be larger in size, as for example in products of petroleum and coal (94 per cent), chemicals (87 per cent), rubber products (84 per cent), and pulp and paper (84 per cent). In the two largest groups, however, transportation equipment and iron and steel products, the percentage of coverage of non-office employees is close to the average, 64 and 53 per cent respectively. This is probably because of the existence of many small establishments in these groups, as well as a few large plants.

Table 3 contains an analysis of the percentage of pension coverage of non-office workers by provinces in all groups except the chartered banks and steam railways, statistics concerning which are not available by province. The range of distribution is about 13 per cent if the non-industrial province of Prince Edward Island is excluded.

Office Employees

About three out of four office employees covered by the survey of April 1, 1954, were in establishments which reported that they had pension plans.

In the Public Utilities group, nearly 97 per cent of office workers were in such establishments, while in the Transportation, Communications and Storage group the percentage was 95.

Almost all financial institutions reported a pension plan but in a few institutions, with a total of approximately 25,000 office employees, the plan was reported to apply to male personnel only. In such cases only the male employees are included in the pension coverage, reducing the coverage to approximately 75 per cent.

Trend from 1951 to 1954

The two Economics and Research Branch surveys show a definite increase in the number of employees, both office and non-office, working in establishments where a pension plan is in operation (Table 4). This may be partly a result of increased employment in firms already having plans, but there is a clear indication also that the total number of pension plans in Canada has increased.

There were approximately 7 per cent more plant employees in establishments reporting a pension plan at April 1, 1954, than in October 1951. The increase is most noticeable for plant employees in Trade and Mining. In both Transportation, Storage and Communication and Public Utilities, the average was already quite high in 1951. In the Manufacturing industries, which represent some 75 per cent of the total number of plant employees covered by the survey, the percentage of plant workers in establishments reporting pension plans increased from 52 per cent in 1951 to 59 per cent in 1954. In the former year 68 per cent of office workers in this group were in establishments which reported that they had a pension plan; by 1954 this proportion had increased to almost 76 per cent.

TABLE 4.—PERCENTAGE OF EMPLOYEES IN ESTABLISHMENTS REPORTING A PENSION PLAN, BY INDUSTRY, OCTOBER 1951, APRIL 1954

Industry	Non-Office		Office	
	1951	1954	1951	1954
	(estimated)		(estimated)	
Mining	42·2	59·0	58·5	77·4
Manufacturing	51·9	59·3	63·0	71·7
Transportation, Storage and Communication	89·3	90·7	94·2	94·9
Public Utilities	97·2	94·2	98·7	96·6
Trade	53·9	75·4	75·2	79·6
Services	57·9	63·7	70·0	76·1
Total coverage	**60·1**	**67·2**	**70·2**	**78·1**

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